CONWEST EXPLORATION

COMPANY LIMITED

FORTY-FIRST ANNUAL REPORT

December 31 — 1979

Forty-first Annual Report

of

CONWEST
EXPLORATION COMPANY LIMITED

DIRECTORS	W. C. CAMPBELL	Toronto, Ontario
	E. B. CONNELL	Spencerville, Ontario
	M. P. CONNELL	Toronto, Ontario
	H. N. HOTCHKISS	Calgary, Alberta
	S. E. JAMIESON	Toronto, Ontario
	J. C. LAMACRAFT	Toronto, Ontario
	C. K. O'CONNOR	Toronto, Ontario
OFFICERS	M. P. CONNELL	Chairman of the Board
	J. C. LAMACRAFT	President and Chief Executive Officer
	C. C. COOLICAN	Executive Vice-President
	J. A. KALMAN	Vice-President
	S. L. KOROLUK	Vice-President, Production, Oil and Gas Division
	J. T. McCOY	Vice-President, Exploration, Oil and Gas Division
	C. K. O'CONNOR	Vice-President, Exploration and Development
	J. A. PATTERSON	Vice-President and Secretary
	J. S. ADAMS	Treasurer
TRANSFER AGENT AND REGISTRAR	Montreal Trust Company	Toronto, Ontario
BANKERS	The Toronto-Dominion Bank	Toronto, Ontario
AUDITORS	Clarkson Gordon	Toronto, Ontario
SOLICITORS	Davies, Ward & Beck	Toronto, Ontario
	McCarthy & McCarthy	Toronto, Ontario
HEAD OFFICE	Suite 1010, 85 Richmond Street West	Toronto, Ontario
CALGARY OFFICE	3rd Floor, Selkirk House 555, 4th Avenue S.W.	Calgary, Alberta
ANNUAL MEETING	June 6, 1980	10:30 a.m. Rosedale Room Hotel Plaza II 90 Bloor Street East Toronto, Ontario

CONWEST EXPLORATION COMPANY LIMITED

Report of the Directors

To the Shareholders,
Conwest Exploration Company Limited.

Your Directors are pleased to present your Company's Annual Report for the year ended December 31, 1979.

Financial

1979 was a successful year for the Company and its subsidiaries. The consolidated results reflect strong earnings and asset growth. Net income for 1979 was $6,219,000 or $2.32 per common share as compared to $4,659,000 or $1.74 per common share in 1978. Book value of total assets increased by $9,500,000 from $53,400,000 to $62,900,000. Working capital together with the quoted market value of marketable securities increased by $26,800,000 to $60,100,000. The Company's long-term and portfolio investments in mineral properties and companies again were the major source of income and asset growth. During the year the Griffith Mine royalty and the Pinson Nevada gold project were sold to realize a net gain of $3,669,000, while net realized gains on portfolio investments amounted to $5,443,000. At the year-end the quoted market value of investments was $16,344,000 in excess of book value.

Oil and Gas Interests

The progressive development of your Company's oil and gas interests held through International Mogul Mines Limited continued during 1979. Working interest reserves at year-end were 24.965 billion cubic feet, an increase of 20.6% over year-end 1978. Development drilling more than replaced the current year's production and several small reserve acquisitions were concluded. Production of natural gas for the year of 890,000 mcf was about as anticipated. Approximately 40% of Mogul's reserves remain shut-in awaiting markets. Conwest and Mogul have agreed (existing interests excepted) to share oil and gas exploration expenditures on an equal basis. A joint exploration budget of at least $10,000,000 over the next three years is anticipated inclusive of exploration funds to be expended through Polaris Petroleums Limited of Calgary. Conwest and Mogul concluded an agreement in late 1979 to jointly participate to the extent of 10% in an $11,000,000 private oil and gas drilling fund sponsored and managed by Polaris and the two companies and Polaris have further agreed to share all prospects on an optional basis to the extent of 25% through to December 31, 1981. Both Conwest and Mogul remain highly interested in the acquisition of reserves and producing properties by purchase.

Mineral Exploration

1979 was the fourth complete year of field work for the Conwest Canadian Uranium Exploration Joint Venture. To December 31, 1979 the joint venture had expended from inception in 1975, a total of $7,200,000 which approximates 85% of the funds originally committed. Substantial additional funds have been expended on the Saskatchewan lands of the joint venture by the Saskatchewan Mining Development Corporation, a one-third participant in all the Conwest lands in Saskatchewan and by Denison Mines Limited, a farmee on certain of the Saskatchewan lands. Exploration of the extensive Saskatchewan claim blocks and Quebec permits continued in 1979 under the management of Eldorado Nuclear Limited. Exploration results to date have generally been negative but the joint venture lands continue to be regarded as prospective. Plans and budgets for continued exploration of the properties are currently being formulated.

Exploration for base metals in the Yukon under the MacMillan Joint Venture with Essex Minerals Company continued in 1979 with some further encouraging zinc-lead-silver values resulting from the diamond drilling programme. Considerable further exploration will be required to fully evaluate not only the mineralization located to date but also the balance of the large property holdings which in total exceeds 45,000 acres. Subsequent to the year-end the Conwest group's 51% interest in the project has been sold to Getty Canadian Metals, Limited. Pursuant to the agreement the Conwest group has recouped its exploration expenditures to date of approximately $1,000,000 and retains a significant interest in the project lands through a 5% net smelter return royalty on the Getty interest in the project.

During the year Conwest acquired a 23% interest in the Strip Lake, Chibougamau property of the Lessard Joint Venture. As previously reported, the 1979 drilling failed to increase known reserves. No further work on the property is planned at this time.

Long-term Mineral Investments

Conwest and subsidiary companies hold a 26% interest in Adanac Mining and Exploration Ltd. Feasibility studies are continuing for Adanac's Ruby Creek, British Columbia, molybdenum property which is under option to Placer Development Limited. Work conducted during 1979 has resulted in a revised mineable ore reserve estimate of 166,000,000 tonnes grading 0.105% MoS_2 with a waste to ore ratio of 1.8 to 1. Marketing considerations remain the major determinant for an early production decision for the project.

Conwest holds 80% of Bay Copper Mines Limited which company's New Brunswick zinc-lead-copper-silver deposit is currently under investigation by Billiton Exploration Canada Limited in joint venture with Texasgulf Inc. A substantial drilling programme was carried out in 1979 by Billiton with further encouraging results but as yet there is not sufficient detail to permit reliable ore reserve estimates. Bay Copper received its first annual advance royalty payment of $250,000 in 1979 pursuant to the 1974 Texasgulf Inc. agreement.

The Company through Mogul holds a 28% interest in Consolidated Canadian Faraday Limited. Faraday holds a 49% interest in Madawaska Mines Limited which completed another successful year with total production from its Bancroft, Ontario, uranium mine aggregating 605,533 lbs. of U_3O_8. Faraday's equity in the net income of Madawaska for 1979 was $2,550,000 as compared to $2,950,000 in 1978; the 1979 decline in earnings being attributable to timing differences in sales contracts. The balance of Madawaska's production financing was retired in the latter part of 1979. Recently a plan of reorganization has been approved in principle whereby Faraday would convert its 49% equity in the capital of Madawaska Mines Limited to a 49% joint venture interest in the mining operation. Faraday would thus secure a 49% direct interest in the operating profits of the mine. The implementation of

this reorganization would facilitate corporate planning for both Faraday and Federal Resources Corporation, the mine operator, by permitting the parties to separately reinvest funds generated by the Bancroft operation.

The Company, through 71% owned Chimo Gold Mines Limited, holds 1,000,000 units of the Iron Bay Trust which has important iron ore royalty holdings. Chimo's share of this royalty income approximated $600,000 in 1979 versus $550,000 in 1978 with the increase being attributable to iron ore price increases of 11% for 1979. The iron ore price has recently been increased a further 8.6% from year-end 1979.

Consortina Incorporated

Operating results for Consortina Incorporated, your Company's hotel and restaurant subsidiary, showed a modest improvement for the year. Sales increased to $11,934,000 from $11,055,000 in 1978 and operating income increased to $1,516,000 from $1,485,000. Further improvement is anticipated for 1980 and some expansion to be funded out of Consortina's internally generated cash flow is now planned.

General

During the year the process of simplification of the structure of the Conwest group continued. Conwest acquired from associated companies a 46% interest in Chimo Gold Mines Limited and acquired by public offer and private transactions an additional 25% interest to hold a total of 71% of Chimo. The reorganization of the Conwest group's holdings in Consolidated Canadian Faraday Limited was also completed with International Mogul now holding, as noted above, the entire 28% interest in Faraday.

The Conwest Directors have approved a plan for reorganization of the Company's capital structure pursuant to which each presently issued common share would be replaced by one new Class A share and one new Class B share. The A shares would carry one hundred votes per share and the B shares one vote per share. The A and B shares would be identical in all other respects. The proposed capital reorganization would render feasible the future issuance of additional common equity without unduly diluting the voting position of the existing Conwest common shareholders. The issuance of such additional common equity might form part of some future proposal for further simplification of the Conwest group structure or corporate acquisitions. The Directors consider it desirable for the Company to have this additional flexibility and recommend your acceptance of the proposed capital reorganization at the forthcoming shareholders' meeting.

The principal priorities for future growth are twofold: continued emphasis on long-term and portfolio investment in mineral properties and companies, and continued build-up of oil and gas interests both through reserve acquisitions and increased exploration exposure.

Your Directors wish to thank, on your behalf, the employees of the Company and its subsidiaries, who have again made the past year a successful one.

On behalf of the Board,

M. P. CONNELL,
Chairman

J. C. LAMACRAFT,
President and Chief Executive Officer

Toronto, Ontario,
April 17, 1980

CONWEST EXPLORATION COMPANY LIMITED
PROFILE OF ASSETS AND ACTIVITIES

Oil and Gas Exploration and Production

Estimated proven and probable working interest reserves of 25 bcf with net future cash flows of $52,000,000; discounted at 15%, $14,600,000. Significant reserve additions anticipated through acquisitions and exploration; minimum of $10,000,000 budgeted for exploration over next three years.

Consolidated Canadian Faraday Limited

28% owned. Has 49% interest in Bancroft uranium producer, Madawaska Mines Limited, as well as interests in oil and gas production, real estate, and gold and base metal prospects. Operating cash flow to Madawaska Mines in 1979 totalled $7,050,000.

Portfolio Investments

Conwest maintains a specialized portfolio of mining and resource securities. Working capital together with quoted market value of portfolio investments totalled $48,400,000 at year end.

Iron Bay Trust

40% owned. The Trust holds a royalty interest in the Griffith iron ore mine operated by Stelco. Royalties are indexed to iron ore prices, and current royalty income of $650,000 per annum to the Conwest Group should continue to increase. Quoted market value of the Group's holding of 1,000,000 units of the Trust was. $7,000,000 at year end.

Consortina Incorporated

90% owned. The Conwest Group's restaurant and lounge subsidiary. Operates the Ports, Bemelmans, Jarvis House, Riverside, the Ascot Inn, Mr. Tony's and the expanding Toby's Goodeats restaurants. Current operations generate cash flow of approximately $1,500,000 per annum.

Mineral Interests

Adanac Mining and Exploration Ltd. (26% owned) holds a substantial low-grade open pit molybdenum orebody under option to Placer Development Limited. Bay Copper Mines Limited (80% owned) holds a zinc-lead-copper-silver orebody in New Brunswick currently under option to Texasgulf. The Group holds a 100% interest in the Lake Ainslie barite-fluorite property, the Dyno and Lorado uranium properties and the Langmuir Township, Ontario, nickel prospect. Muscocho Explorations Limited (12.4% owned) holds a 50% interest in the Montauban gold deposit being readied for production. Numerous other mineral exploration prospects held.

Conwest Canadian Uranium Joint Venture

Conwest Group holds a 12.5% working interest and 3% gross royalty interest in the Joint Venture's continuing programme of exploration on lands totalling 250,000 acres on the edge of the Athabasca Basin in Saskatchewan and 150,000 further acres in Quebec. Cumulative exploration expenditures by the Joint Venture total $7,200,000.

Five Year Consolidated Financial Summary

($000)

	1975	1976	1977	1978	**1979**
Total Assets	$16,220	$32,950	$37,630	$53,450	**$62,870**
Income Before Minority Interest ..	($1,210)	$140	$1,540	$7,250	**$11,660**
Common Shareholders' Equity ..	$13,410	$13,290	$15,410	$19,740	**$25,550**
Net Income	($950)	($120)	$2,170	$4,660	**$6,220**
Net Income per common share	($.38)	($.05)	$.85	$1.74	**$2.32**

Financial Review

Consolidated net income for the year amounted to $6,219,000 or $2.32 per common share versus 1978 net income of $4,659,000 or $1.74 per common share.

Working capital increased to $21,565,000 ($8.63 per share) at year-end 1979 from $21,344,000 ($8.54 per share) at the end of 1978.

Total assets at year-end increased to $62,868,000 from $53,447,000 in 1978 and book value per common share increased to $10.22 per share from a restated $7.90 per share in 1978.

Long Term Investments

Adanac Mining and Exploration Ltd.

Conwest and subsidiary companies hold a 26% interest in Adanac Mining and Exploration Ltd. Exploration work in prior years on that company's Ruby Creek property near Atlin in northwestern British Columbia has outlined a large low grade molybdenum deposit. The property is currently under option to Placer Development Limited who can earn a 70% interest in the property by undertaking on or before December 31, 1983 to finance the property to production. Work conducted during 1979 has resulted in a revised mineable ore reserve estimate of 166,000,000 tonnes grading 0.105% MoS_2 with a waste to ore ratio of 1.8 to 1. Marketing considerations remain the major determinant for an early production decision for the project. The very dramatic increase in the price of molybdenum which has occurred over the course of the last several years has created a surge in world production capacity and a market consolidation phase appears to be in process.

The Iron Bay Trust

Chimo Gold Mines Limited, 71% owned by your Company, holds 1,000,000 units of the Iron Bay Trust. The Trust owns 80% of a royalty interest in an iron ore property known as the Griffith Mine, leased to The Steel Company of Canada, Limited until April 30, 2040. The mine commenced production in 1969 and the production rate has stabilized at approximately 1,500,000 tons of iron ore pellets per annum. The lease agreement provides for escalation of the royalty rate payable to the Trust proportionately with increases in the price of iron ore pellets. The royalty rate was increased in 1979 by 11% from $0.97 per ton at January 1, 1979 to $1.08 per ton at December 31, 1979. Subsequent to the year-end the royalty rate has been increased by a further 8.6% to $1.17 per ton. Royalty income to Chimo during 1979 amounted to $596,000 versus $545,000 in 1978.

Consolidated Canadian Faraday Limited

Conwest, through International Mogul Mines Limited, holds 28% of Consolidated Canadian Faraday Limited. Faraday holds a 49% interest in Madawaska Mines Limited, which company operates a uranium mine-mill near Bancroft, Ontario. During 1979 Madawaska produced 605,533 lbs. of U_3O_8 from 390,366 tons of ore milled. The average ore grade was 1.64 lbs U_3O_8 per ton and the recovery rate was approximately 95%. The average net price received from foreign and domestic sales during the year was $43.57 per pound U_3O_8. Madawaska cash flow from operations after capital reinvestment for the year amounted to $7,050,000. Faraday's equity in the net income of Madawaska for the year was $2,550,000 as compared to $2,950,000 in 1978. Recently a plan of reorganization has been approved in principle whereby Faraday would convert its 49% equity in the capital of Madawaska Mines Limited to a 49% joint venture interest in the mining and milling operation. Faraday would thus secure a 49% direct interest in the future operating cash flows of the mine. Implementation of this reorganization will facilitate corporate planning for both Faraday and Federal Resources Corporation, the mine operator and 51% owner, by permitting direct utilization of the cash flow generated by the Bancroft operation. Faraday also has an 11.017% interest in an 18 section shallow gas field in the Redcliffe area of Alberta and a controlling interest in Hydra Explorations Limited which has interests in two low grade gold mining prospects.

Muscocho Explorations Limited

Conwest held 1,505,000 shares of Muscocho Explorations Limited at year-end, representing 28% of the outstanding shares. Muscocho is commencing development of its Montauban, Quebec gold deposit held jointly with Soquem. Current plans are to rail the ore to Val d'Or for custom treatment. Mineable ore reserves are estimated by Soquem to be 350,000 tons averaging 0.193 oz. gold per ton and 0.58 oz. silver per ton. Plans call for a 150,000 tons per year operation and the partners have committed to a $1.5 million underground development programme for the summer of 1980 to ready the deposit for production. Subsequent to the year-end Conwest has realized proceeds of $1,915,000 on the sale of a total 14.9% interest in Muscocho to hold 12.4% at the date of this report.

Hotel and Restaurant Operations

Conwest and 71% owned Chimo Gold Mines Limited hold 90% of the capital of Consortina Incorporated. Consortina owns and operates a number of restaurants, lounges, and accommodation units within the Toronto area. These include The Ports on Yonge Street, Bemelmans Restaurant and Toby's Goodeats on Bloor Street West, Toby's Goodeats on Yonge Street at Eglinton, Mr. Tony's on Cumberland at Bellair, The Ascot Inn in Rexdale, the Jarvis House in downtown Toronto and the Riverside Lodge in Oakville. Operating results showed a modest improvement for the year. Sales increased to $11,934,000 from $11,055,000 in 1978 and operating income increased to $1,516,000 from $1,485,000. Further improvements are anticipated for 1980. During 1979, the second Toby's unit was successfully launched. Toronto locations for additional Toby's units are currently under consideration. Recently the business known as Mr. Tony's was acquired as a going concern and will be refurbished during the latter part of 1980. Plans are under way for upgrading and expanding facilities in the Riverside Lodge and Bemelmans restaurant. Consortina has also entered into an agreement for the possible redevelopment of the north half of the Ports site. The redevelopment would involve construction of a mixed use condominium and retail complex; the part of the existing Ports complex, known as the Northgate, will continue its present operations.

Oil and Gas Operations

Summary of Proven and Probable Gas Reserves

	Working Interest Reserves (mcf) Dec. 31, 1978	Dec. 31, 1979
Proven reserves	18,160,000	20,910,000
Probable reserves	2,546,000	4,055,000
	20,706,000	24,965,000

Forecast Net Cash Flow after Operating and Capital Expenditures and Royalties
(Independent Appraisal)

	Undiscounted	Discounted At 15%
Proven reserves	$43,292,000	$13,029,000
Probable reserves	8,865,000	1,529,000
	$52,157,000	$14,558,000

Summary of Operating Results

	1978	1979
Oil and gas revenues, net of royalties	$ 1,257,000	$ 1,401,000
Deferred income under take or pay provision of gas contracts	80,000	194,000
	1,337,000	1,595,000
Operating expenses	227,000	231,000
Cash flow from operations	$ 1,110,000	$ 1,364,000

The summary shown above represents the reserves and results of operations held through 49.5% owned International Mogul Mines Limited. Proven and probable reserves increased by 20.6% (or 4,259,000 mcf.) from year end 1978 after production of some 890,000 mcf. during the year. This increase results from the proving up of additional reserves on the Company's Alberta holdings, through development drilling and several small reserve acquisitions concluded in 1979.

Mineral Exploration

Conwest continued to manage a Canada-wide exploration programme during 1979 on behalf of itself, International Mogul Mines Limited, Chimo Gold Mines Limited and Consolidated Canadian Faraday Limited. Total exploration expenditures of the Group for 1979 amounted to $1,441,000 while expenditures by others on joint projects were approximately $2,777,000, resulting in total exploration exposure of $4,218,000.

The Conwest managed MacMillan Joint Venture continued diamond drilling of a massive sulphide zone located in 1978, completing ten holes for 8,140 feet. Encouraging zinc-lead-silver values were obtained; however, considerable exploration expenditures will be required to fully evaluate the significance of the mineralization located to date and as a result, Conwest decided early in 1980 to sell its interest in the Joint Venture to Getty Canadian Metals, Limited for a cash consideration approximately equivalent to previous exploration costs and a 5% net smelter return royalty.

Eldorado Nuclear Limited continued exploration of the extensive Saskatchewan claim blocks and Quebec permits on behalf of the Conwest Canadian Uranium Exploration Joint Venture. On the former, a total of 34,000 feet of diamond drilling was carried out in 1979 to follow-up extensive geophysical surveys. One new uranium occurrence was located associated with graphitic basement rocks; however, it did not respond favourably to closely spaced drilling. In Quebec, detailed prospecting located the probable source of a small but high grade uranium boulder train and diamond drilling to test this and other targets commenced in March 1980. Denison continued exploration of lands farmed out from the Conwest Uranium Joint Venture during 1979, and limited additional work is planned for 1980. Saskatchewan Mining and Development Corporation is a one-third participant in all of the Conwest lands in Saskatchewan.

Conwest carried out detailed exploration including diamond drilling on several of its Bathurst area, New Brunswick, base metal properties during 1979. No significant mineralization was obtained; however, the potential has not been completely evaluated and subsequent to year-end an agreement was reached with Brunswick Mining and Smelting Corporation Limited to continue the exploration. Conwest may elect to resume as a participant or take a lesser carried interest once certain expenditures have been made.

In Ontario, further reconnaissance for massive sulphides was discontinued and agreement in principle was reached with Riocanex to provide for further exploration of the one remaining project which had not been completely evaluated. Conwest may elect to resume as a participant after certain expenditures have been made, or take a lesser carried interest.

Conwest, acting for its own account, carried out a deep diamond drilling programme on the Lessard base metal property of Selco and Muscocho north of Chibougamau, Quebec. A total of 15,807 feet of drilling was completed. This additional drilling failed to increase the known reserves on the property which have been recalculated at 1,050,000 tons averaging 1.82% copper, 3.30% zinc, 1.12 oz. of silver per ton and 0.02 oz. gold per ton. Conwest earned an approximate 22.7% interest in the project with Selco and Muscocho retaining 57.3% and 20.0% respectively.

Mineral interests of Subsidiary or Associated Companies

International Mogul Mines Limited, in addition to participating in the Conwest exploration programme described above, holds several mineral property interests including a barite-fluorite deposit on Cape Breton Island and a small nickel deposit near Timmins, Ontario. Both of these prospects look more attractive under current market conditions.

Conwest holds 80% of Bay Copper Mines Limited which Company's New Brunswick zinc-lead-copper-silver deposit is currently under investigation by Billiton Exploration Canada Limited in joint venture with Texasgulf Inc. Bay Copper holds a non-assessable 10% net operating profits interest in the deposit and is entitled to advance royalties of $250,000 per annum, the first payment having been received in 1979. During 1979, Billiton completed approximately 30,000 feet of diamond drilling on the property to further test the depth extension of the known mineralization. Further drilling will be carried out in 1980. Results to date are encouraging but not yet sufficiently detailed to permit reliable ore reserve estimates. On the basis of information to December 31, 1979, inferred ore reserves are estimated to exceed 10 million tons grading 10% combined zinc-lead.

Chance Mining and Exploration Company Limited maintains numerous claim groups in the Timmins area of Ontario, some of which are covered by an agreement with Texasgulf Canada Ltd. During 1979 Texasgulf carried out overburden and diamond drilling of one of the claim groups and this programme is continuing in 1980.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Conwest Exploration Company Limited, and the companies included herein on a consolidated basis, have been prepared by management in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for mineral exploration interests referred to in note 1 to the consolidated financial statements, on a consistent basis. The principal accounting policies followed by Conwest are summarized below to facilitate review of the consolidated financial statements.

A Long-term inter-corporate investments

The accompanying financial statements include, on a consolidated basis, the accounts of the Company, all of its subsidiaries and International Mogul Mines Limited in which Conwest holds a 49% interest. The accounts of this company are included in consolidation because the shares not owned by Conwest (included in "minority interest" in the consolidated financial statements) are widely held and because it is management's opinion that the company is properly viewed, together with Conwest and its subsidiaries, as a single economic entity. The following are the principal companies included on a consolidated basis:

	Conwest Equity
Basin Oil Exploration Limited	99%
Bay Copper Mines Limited	80
Chance Mining and Exploration Company Limited	54
Chimo Gold Mines Limited	71
Consortina Incorporated	85
Conwest Exploration Company (Alberta) Limited	100
Conwest Exploration Overseas Limited	100
International Mogul Mines Limited	49

Conwest's investment in companies in which it has significant influence is accounted for on the basis of cost plus Conwest's net equity in undistributed earnings in such companies since the date significant influence was acquired. The following are the principal companies accounted for on the equity method:

	Conwest Equity
Adanac Mining and Exploration Ltd.	22%
Hucamp Mines Limited	38
Liard Fluorspar Mines Limited	47
Muscocho Explorations Limited	28
West Graham Mines Limited	48

	Mogul Equity
Consolidated Canadian Faraday Limited	28%

Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline in value which is other than temporary.

B Segmented reporting

The accompanying consolidated statements of income and changes in financial position have been prepared on a segmented basis to provide a meaningful comparison of the component parts of the Company's operations. Inter-company investments and transactions have been eliminated from the financial results of each operation.

C Mineral exploration interests

Direct exploration expenditures and the cost of acquisition of mineral exploration interests are charged to income in the year incurred.

D Mineral resource interests

The cost of acquisition of mineral interests which contain economic mineral reserves and the cost incurred on mineral exploration interests subsequent to the determination that such interests contain economic mineral reserves are deemed to be mineral resource interests. These interests, together with development expenditures thereon, are deferred and carried as an asset to be amortized against future production. Upon disposal or abandonment, the net gain or loss related to such asset is reflected in the statement of income.

E Oil and gas resource interests

The Company follows the full cost method of accounting for oil and gas interests whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of both productive and unproductive drilling. Proceeds received on disposal of properties are credited against such costs.

Depletion of costs accumulated, and depreciation of petroleum equipment, is provided using the composite units of production method based on total proven reserves of oil and gas.

F Units of The Iron Bay Trust

Units of The Iron Bay Trust, included in shares with quoted market value, are carried at cost less accumulated amortization. The cost is being amortized on the units of production basis at the rate of 11.04 cents per ton.

G Inventory

Inventory, consisting of restaurant and hotel supplies, is valued at the lower of cost on a first-in, first-out basis and replacement cost.

H Fixed assets

Fixed assets are carried at cost, and excluding those related to oil and gas resource interests referred to in E above, are depreciated over their estimated useful lives as follows:

Buildings	— 4% straight line
Furniture, fixtures and equipment	—10% straight line
Leasehold improvements	—over the remaining term of the lease plus the first renewal option

I Goodwill

Goodwill, included in other assets, represents the unamortized excess of the purchase price on the acquisition of restaurants or hotels, over the fair market value of all the assets acquired. Goodwill is being amortized on a straight-line basis over a period of twenty (20) years from the dates of the respective acquisitions.

Conwest Exploration Company Limited

(Incorporated under the Canada Corporations Act)

Consolidated Balance Sheet — December 31, 1979

(with comparative figures at December 31, 1978)

ASSETS

	1979	1978
Current		
Cash, term deposits and commercial paper	**$21,537,000**	$21,373,000
Accounts receivable and prepaid expenses	**2,932,000**	1,984,000
Inventory	**258,000**	252,000
Total current	**24,727,000**	23,609,000
Investments (quoted market value $38,499,000; 1978 — $11,949,000) (notes 1 and 3)	**22,155,000**	12,092,000
Oil and gas interests (note 4)	**6,909,000**	4,729,000
Mining interests (notes 1 and 5)	**1,000**	2,534,000
Fixed (note 6)	**8,661,000**	10,111,000
Other	**415,000**	372,000
	$62,868,000	$53,447,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current		
Accounts payable and accrued liabilities	**$ 2,775,000**	$ 2,008,000
Current portion of long-term debt	**387,000**	257,000
Total current	**3,162,000**	2,265,000
Long-term debt (note 7)	**3,457,000**	5,992,000
Minority interest (note 8)	**25,696,000**	20,448,000
Shareholders' Equity		
Share capital		
Issued and outstanding (note 9)		
Preferred shares	**5,000,000**	5,000,000
Common shares	**10,000,000**	10,000,000
Retained earnings (note 1)	**15,553,000**	9,742,000
	30,553,000	24,742,000
	$62,868,000	$53,447,000

On behalf of the Board

M. P. CONNELL, Director

J. C. LAMACRAFT, Director

Conwest Exploration Company Limited

CONSOLIDATED STATEMENT OF INCOME
Year ended December 31, 1979
(with comparative figures for the year 1978)

	1979	1978
Resource Operation:		
Dividend and interest income	**$ 3,345,000**	$ 2,039,000
Oil and gas production	**1,401,000**	1,257,000
Gain on disposal of investments	**5,443,000**	4,919,000
Gain of disposal of mining properties	**3,669,000**	691,000
Royalty and other income	**740,000**	81,000
	14,598,000	8,987,000
General and administrative	**1,234,000**	713,000
Mineral exploration	**1,014,000**	535,000
Oil and gas production	**231,000**	227,000
Depletion and depreciation	**460,000**	317,000
Write-down of investments	**203,000**	284,000
Company portion of losses of companies accounted for on the equity basis	**103,000**	18,000
	3,245,000	2,094,000
Income from resource operation before undernoted items	**$11,353,000**	$ 6,893,000
Restaurant and Hotel Operation		
Revenue	**$11,934,000**	$11,055,000
Cost of sales and administrative expenses	**10,418,000**	9,570,000
Depreciation and amortization	**730,000**	657,000
	11,148,000	10,227,000
Income from restaurant and hotel operation before undernoted items	**$ 786,000**	$ 828,000
Total income from resource and restaurant and hotel operation before undernoted items	**12,139,000**	7,721,000
Interest on long-term debt	**397,000**	412,000
Other interest expense		2,000
	397,000	414,000
Income before income taxes and minority interest	**11,742,000**	7,307,000
Income taxes	**84,000**	56,000
	11,658,000	7,251,000
Minority interest in net income of consolidated companies	**5,439,000**	2,960,000
Income before extraordinary item	**6,219,000**	4,291,000
Recovery on investment by a consolidated company (net of minority interest of $382,000)		368,000
Net income for the year	**$ 6,219,000**	$ 4,659,000
Earnings per common share (after preferred share dividends)		
Income before extraordinary item	**$2.32**	$1.59
Net income for the year	**$2.32**	$1.74

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year ended December 31, 1979
(with comparative figures for the year 1978)

	1979	1978
Retained earnings at beginning of year		
As previously reported	**$12,301,000**	$16,535,000
Adjustment arising from change in method of accounting for mineral exploration interests (note 1)	**2,559,000**	2,415,000
As restated	**9,742,000**	14,120,000
Net income for the year	**6,219,000**	4,659,000
	15,961,000	18,779,000
Deduct:		
Preferred share dividends	**408,000**	322,000
Capitalization of retained earnings		8,715,000
	408,000	9,037,000
Retained earnings at end of year	**$15,553,000**	$ 9,742,000

AUDITORS' REPORT

To the Shareholders of
Conwest Exploration Company Limited

We have examined the consolidated balance sheet of Conwest Exploration Company Limited as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For Conwest Exploration Company Limited and for those other companies of which we are the auditors and which are consolidated or accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change, with which we concur, in accounting for the costs incurred on mineral exploration interests referred to in note 1.

Toronto, Canada
April 10, 1980

Clarkson Gordon
Chartered Accountants

Conwest Exploration Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 1979
(with comparative figures for the year 1978)

	1979	1978
RESOURCE OPERATION:		
Source of funds:		
Operations	**$ 2,808,000**	$ 1,904,000
Disposal of investments and reduction in advances	**15,751,000**	14,863,000
Disposal of Griffith Mine royalty interest	**5,120,000**	
Disposal of mining interests	**1,166,000**	668,000
Proceeds on disposal of oil and gas interests	**346,000**	1,170,000
Issue of common shares by consolidated company	**87,000**	
Recovery on investment by consolidated company		750,000
	25,278,000	19,355,000
Application of funds:		
Acquisition of Chimo Gold Mines Limited, net of working capital acquired	**3,152,000**	
Acquisition of Calmor Iron Bay Mines Limited, including working capital deficiency assumed		3,434,000
Investments	**17,303,000**	10,798,000
Oil and gas interests	**2,996,000**	674,000
Cost of preference shares purchased for cancellation by consolidated company	**461,000**	26,000
	23,912,000	14,932,000
Net funds from resource operation before undernoted items	**$ 1,366,000**	$ 4,423,000
RESTAURANT AND HOTEL OPERATION:		
Source of funds:		
Income from operations	**$ 1,516,000**	$ 1,485,000
Purchase of fixed assets and goodwill	**(498,000)**	(529,000)
Net funds from restaurant and hotel operation before undernoted items	**$ 1,018,000**	$ 956,000
Total increase in working capital before undernoted items	**$ 2,384,000**	$ 5,379,000
Issue of preference shares by consolidated companies	**200,000**	10,000,000
Repayment of long-term debt (net)	**(446,000)**	(424,000)
Dividends paid on preferred shares	**(408,000)**	(322,000)
Dividends paid on preferred shares by consolidated companies	**(1,112,000)**	(782,000)
Interest expense	**(397,000)**	(414,000)
Net increase in working capital	**221,000**	13,437,000
Working capital at beginning of year	**21,344,000**	7,907,000
Working capital at end of year	**$21,565,000**	$21,344,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1979

1. The principal accounting policies followed by the Company are summarized on pages 8 and 9.

During the year the Company changed its accounting policy with respect to mineral exploration interests. The Company had previously capitalized the direct cost of acquisition, and expenditures thereon, of mineral exploration interests which were in good standing at the year end.

The accounting policy adopted, set out at C in the Summary of Accounting Policies on page 8, has been applied retroactively, and as a result net income for 1979 and 1978 has been decreased by $267,000 ($0.11 per share) and $144,000 ($0.06 per share) respectively.

2. Acquisition of Chimo Gold Mines Limited

(a) Effective September 30, 1979 the Company increased its investment in Chimo Gold Mines Limited from 15.3% to 61.4%. Effective December 31, 1979 the Company acquired a further 9.3% of Chimo Gold Mines Limited. The Company accounted for these acquisitions using the purchase method of accounting and consolidated the results of operations from the dates of the respective acquisitions.

On a consolidated basis the acquisition cost of Chimo was comprised of:

Cash consideration for the shares of Chimo acquired during the year	$3,811,000
Prior investment at cost	849,000
	$4,660,000

The following costs were assigned to the net assets of Chimo at the dates of acquisition:

Current assets	$ 711,000
Current liabilities	(52,000)
Working capital	659,000
Investment in The Iron Bay Trust	4,107,000
Investments with a quoted market value	159,000
Investments and advances with no quoted market value	93,000
Investment in Consortina Incorporated	383,000
	5,401,000
Minority interest	(741,000)
Investment in Chimo on a consolidated basis	$4,660,000

(b) Chimo owns 1,000,000 units of The Iron Bay Trust which owns an 80% interest in a producing mining property, consisting of 123 mining claims in the Bruce Lake area, District of Kenora, Ontario, leased to The Steel Company of Canada, Limited until April 30, 2040. The lease provides for a royalty based on quantities of iron ore pellets shipped from the mine. The royalty rate (presently $1.17 per ton, for the Trust's account), is indexed to changes in the prevailing Lower Lake Superior price for iron ore pellets.

(c) Consortina is included on a consolidated basis in these financial statements. Information relating to the 18% minority share of net assets effectively acquired on the acquisition of Chimo is as follows:

Net assets of minority interest in Consortina at book value	$1,305,000
Adjustment to reflect fair value which has been allocated to land, buildings and equipment	922,000
Cost of acquisition	$ 383,000

3. Investments

	1979		1978	
	Cost or carrying value	Quoted market value	Cost or carrying value	Quoted market value
Shares with a quoted market value	$16,337,000	$26,817,000	$ 9,802,000	$10,954,000
Companies subject to significant influence	4,998,000	11,682,000	1,865,000	995,000
Other shares and advances	820,000		425,000	
	$22,155,000	$38,499,000	$12,092,000	$11,949,000

Because of the number of shares held in certain companies, the quoted market values are not necessarily indicative of the value of the investments, which may be more or less than indicated by market quotations.

Companies subject to significant influence and accounted for on the equity method are comprised as follows:

	December 31, 1979			
	Number of shares	Percentage interest	Carrying value	Quoted market value
Investments with quoted market value —				
Adanac Mining and Exploration Ltd.	775,506	22%	$ 678,000	$ 5,138,000
Consolidated Canadian Faraday Limited	994,600	28	3,158,000	3,282,000
Muscocho Explorations Limited	1,505,000	28	451,000	3,130,000
Hucamp Mines Limited	662,205	38	64,000	132,000
			4,351,000	$11,682,000
Other investments and advances —			647,000	
			$4,998,000	

Effective September 30, 1979 Adanac and Faraday became subject to significant influence by the Company. The excess of the consolidated cost of acquisition of these investments over the Company's equity, on a consolidated basis, in the net book value of the assets of Faraday and Adanac, amounting to $843,000, has been allocated as follows:

	Faraday	Adanac	Total
Resource interests	$ 354,000	$ 200,000	$ 554,000
Investments with quoted market value	187,000		187,000
Fixed assets	102,000		102,000
	$ 643,000	$ 200,000	$ 843,000

Excess amounts allocated to resource interests are being amortized on a units of production basis.

Subsequent to the year end the Company received consent from regulatory authorities to sell up to 900,000 shares of Muscocho in the open market prior to December 31, 1980. To April 10, 1980 the Company has sold 797,600 shares.

4. Oil and gas interests

	1979	1978
Balance at beginning of year	$4,729,000	$5,532,000
Add:		
Acquisitions in year	1,855,000	304,000
Current year's expenditures	1,141,000	369,000
	7,725,000	6,205,000
Deduct:		
Depletion and depreciation	336,000	306,000
Expenditures charged to income	134,000	
Proceeds on disposition	346,000	1,170,000
Balance at end of year	$6,909,000	$4,729,000

Effective June 30, 1979 International Mogul Mines Limited purchased 100% of Jennex Petroleum Ltd. for a net cash consideration of $1,567,000. Jennex was wound up into Mogul in December, 1979. Mogul accounted for this acquisition using the purchase method of accounting and consolidated the results of Jennex's operations from the acquisition date.

Mogul assigned the following costs to the net assets of Jennex at June 30, 1979:

Current assets	$ 50,000
Current liabilities	83,000
Net working capital deficiency	(33,000)
Petroleum and natural gas leases and rights and equipment thereon	1,600,000
Net cash consideration	$1,567,000

5. Mining Interests

In late 1979 the Griffith Mine royalty interest was sold for $5,120,000. The unamortized cost of $2,533,000 at December 31, 1978 is included in mining interests in the accompanying consolidated balance sheet.

6. Fixed Assets

	1979			1978
	Restaurant and hotel operation	Mineral resource operation	Total	Total
Buildings	$ 4,659,000		$ 4,659,000	$ 5,153,000
Furniture, fixtures and equipment	2,982,000	$ 102,000	3,084,000	3,232,000
Leasehold improvements	751,000		751,000	751,000
	8,392,000	102,000	8,494,000	9,136,000
Accumulated depreciation and amortization	2,023,000	95,000	2,118,000	1,443,000
	6,369,000	7,000	6,376,000	7,693,000
Land	2,285,000		2,285,000	2,418,000
	$ 8,654,000	$ 7,000	$ 8,661,000	$10,111,000

Oil and gas production equipment is included in oil and gas interests at cost less accumulated depreciation.

Total assets, net of current liabilities, of the restaurant and hotel operation included in the consolidated balance sheet total $9,680,000 (1978 — $10,366,000), including the fixed assets referred to above.

7. Long-term debt

	1979		1978
	Current	Long-term	Long-term
(a) Mortgages —			
— Secured by land and buildings having a cost of $3,557,000			
10% First mortgage payable $50,000 per annum (principal only), due January 19, 1981	$ 50,000	$1,143,000	$1,193,000
— Secured by land and buildings having a cost of $2,243,000			
4% First mortgage due June 1, 1980	131,000		132,000
10¾% Second mortgage payable $112,000 per annum (interest and principal), due March 1, 1986	19,000	881,000	900,000
— Secured by land and buildings having a cost of $804,000			
9½% First mortgage due June 22, 1980	115,000		115,000
Total mortgages	315,000	2,024,000	2,340,000
(b) Due to minority shareholders —			
— Secured by Series A demand debentures of subsidiary			950,000
— Secured by Series B demand debentures of subsidiary		315,000	1,468,000
— Unsecured advances			43,000
Total due to minority shareholders		315,000	2,461,000
(c) Fixed and floating charge debenture, secured by assets having a cost of $1,631,000, interest at bank prime plus 2½%, payable $62,000 per annum (principal only), due July 15, 1982	62,000	1,028,000	1,091,000
(d) Non-interest bearing notes payable $10,000 per annum (principal only)	10,000	90,000	100,000
Total long-term debt	$ 387,000	$3,457,000	$5,992,000

Consortina Incorporated, an 85% owned subsidiary, has issued Series A and Series B demand debentures to secure outstanding advances from its financing group. These debentures bear interest at the prime bank rate plus 4½% and are secured by a fixed and floating charge on all the assets of Consortina subject only to prior secured interests held by creditors referred to in (a) and (c) above.

Holders of the Series A and B debentures due to minority shareholders have waived payment of financing charges for 1979 and have notified Consortina that in the ordinary course of business they will not demand repayment of indebtedness prior to January 1, 1981.

Aggregate maturities of long-term debt, other than amounts due to minority shareholders, for the five years ending December 31, 1979 are approximately as follows:

1980	$ 387,000
1981	1,236,000
1982	999,000
1983	35,000
1984	35,000

8. Minority interest

Minority interest includes $10,000,000 cumulative redeemable non-voting first preference shares issued in 1978 by I.M.M. Ventures Limited, a wholly-owned subsidiary of Mogul. The annual dividend rate on these shares from the date of issue to June 30, 1980 will be an amount equivalent to 1⅜% plus ½ the prime rate of a Canadian chartered bank and thereafter to redemption at 1½% plus ½ the prime rate. The dividend rate at December 31, 1979 was 8.55% (March 31, 1980 — 8.91%).

These shares must be redeemed by Ventures on June 30, 1983, but may be redeemed, at the option of Ventures, after June 30, 1980 and under limited circumstances prior thereto. All redemptions of these shares are at par value plus all accrued and unpaid dividends.

The provisions of these shares include a number of restrictions and covenants relating to the operations of Ventures. Contravention of any of these provisions provides the holder of these first preference shares with the right to require their immediate redemption by Ventures.

Mogul has agreed with the holder that, under certain circumstances, it will purchase the first preference shares from the holder and has secured this obligation by a pledge of certain of its commercial paper and investments with a quoted market value having a value of approximately $10,000,000.

9. Share capital

	1979	1978
Authorized:		
1,000,000 First Preferred Shares of the par value of $10 each, issuable in series, of which 500,000 Cumulative Redeemable First Preferred Shares, Series One constitute the first series		
3,000,000 Common Shares without par value		
Issued and outstanding:		
500,000 First Preferred Shares, Series One	$ 5,000,000	$ 5,000,000
2,500,000 Common Shares	10,000,000	10,000,000
	$15,000,000	$15,000,000

(a) The First Preferred Shares, Series One, which must be redeemed on December 1, 1984 and may be redeemed after December 31, 1980 at the Company's option upon giving 30 days notice, have a cumulative variable dividend rate. The annual rate is calculated on a quarterly basis, equal to .55 times the average prime rate of Canadian chartered banks plus 1.2%. The dividend rate at December 31, 1979 was 9.09% (March 31, 1980 — 9.49%). Pursuant to the subscription agreement the Company is required to maintain a purchase fund for the redemption of these preferred shares and, in certain circumstances, they are redeemable, prior to maturity, at the option of the holder. All redemptions of these shares are at par value plus all accrued and unpaid dividends.

(b) On March 24, 1980 options were granted to purchase 25,000 common shares of the Company at a price of $6.98 per optioned share. The options may be exercised in whole, or in part, at any time prior to March 24, 1985.

10. Income taxes

At December 31, 1979 resource interests and fixed assets are carried at $15,571,000 (1978 — $17,374,000) in the consolidated balance sheet, of which approximately $10,500,000 (1978 — $9,800,000) is deductible for income tax purposes.

In addition, the company and the companies consolidated herein have other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years. Details of these deductions, the tax effect of which has not been reflected in the consolidated financial statements are approximately as follows:

Resource expenditures and capital cost allowances (available indefinitely)		$19,600,000
Non-capital losses which expire as follows:		
1981	$ 300,000	
1982	1,700,000	2,000,000
Balance, December 31, 1979		$21,600,000

These deductions are available to reduce or eliminate income taxes otherwise payable in future years. Since reductions or eliminations of this nature are expected to recur on a regular basis over an extended period of years and are typical of the Company's normal business activities, they are not considered to be extraordinary in nature and are reflected as a reduction of current income taxes when realized. Approximately $8,000,000 (1978 — $6,400,000) of deductions of this type were applied to eliminate income taxes that would otherwise have been recorded as a charge against income of the current year.

11. Remuneration of Officers and Directors

The company has 7 directors and 6 senior officers (as defined in the Canada Corporations Act), 3 of whom are directors. Aggregate direct remuneration during 1979 was as follows:

	As directors	As officers
Directors	$ 7,750	
Officers	6,250	$186,159
	$14,000	$186,159

Central Patricia Gold Mines, Limited pays substantially all of the remuneration of directors and senior officers of certain related companies (the Conwest Group) and is reimbursed by these companies for their proportionate share. During the year, Conwest's share of the amounts so paid was $176,159 which is included in the $186,159 referred to above.

12. Reclassification of 1978 Comparative Figures

Certain of the 1978 comparative figures have been reclassified to conform with groupings adopted in 1979. There has been no change in 1978 net income previously reported as a result of these reclassifications.

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